

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name WHITE CLOUD COMMUNITY LIBRARY	County NEWAYGO
Audit Date 6/30/05	Opinion Date 8/1/05	Date Accountant Report Submitted to State: 9/30/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

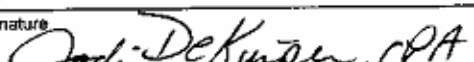
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) HENDON & SLATE, PC			
Street Address 711 WEST MAIN STREET, PO BOX 9	City FREMONT	State MI	ZIP 49412
Accountant Signature 		Date 9/30/05	

**WHITE CLOUD COMMUNITY LIBRARY
NEWAYGO COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

JUNE 30, 2005

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WHITE CLOUD COMMUNITY LIBRARY

Library Board

<u>Appointed Official</u>	<u>Position</u>
Laurel Jones	President
Mike Ross	Vice- President
Chris Tiernan	Secretary
Pat Ebenstein	Treasurer
Kristi Palen	Trustee
Donna Clark	Trustee
Judy Maike	Trustee
Larry Hoffman	Trustee
Mary Bleiler	Trustee

Administration

Nancy L. Harper	Library Director
Linda A. Foondle	Assistant Director



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



Library Board
White Cloud Community Library
White Cloud, MI 49349

Independent Auditor's Report

We have audited the accompanying basic financial statements of the White Cloud Community Library as of and for the year ended June 30, 2005 as listed in the accompanying table of contents. These financial statements are the responsibility of the White Cloud Community Library Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the White Cloud Community Library as of June 30, 2005, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the table of contents as supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements of White Cloud Community Library. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The management discussion and analysis included in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of White Cloud Community Library. We did not examine this data and, accordingly, do not express an opinion thereon.

Hendon & Slate

Hendon & Slate, P.C.
Certified Public Accountants
August 1, 2005

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**WHITE CLOUD COMMUNITY LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2005**

Using this annual Report

This annual report consists of three parts - *management's discussion and analysis* (this Section), the *basic financial statements*, and *required supplementary information*. The Basic Financial Statements include information that presents two different views of the Library:

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These *Fund Financial Statement* focus on the current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The second column of the financial statements includes information on the Library's Capital Projects Fund under the modified accrual method. These *Fund Financial Statement* focus on the current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The Adjustment column of the financial statements represents adjustments necessary to the government-wide financial statements under the full-accrual method.
- The *government-wide financial statement* columns provide both *long-term* and *short-term* information about the Library's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in short term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below contains key financial information in a condensed format:

	<u>2005</u>	<u>2004</u>
Current Assets	\$ 146,788	\$ 141,296
Capital Assets	<u>586,480</u>	<u>515,393</u>
Total Assets	<u><u>\$ 733,268</u></u>	<u><u>\$ 656,689</u></u>
Long-term Asset	42,527	2,192
Other Liabilities	<u>79,851</u>	<u>18,029</u>
Total Liabilities	<u><u>\$ 122,378</u></u>	<u><u>\$ 20,221</u></u>
Net Assets:		
Invested in Capital Assets, net of Debt	547,480	511,342
Unrestricted	<u>63,410</u>	<u>125,126</u>
Total Net Assets	<u><u>\$ 610,890</u></u>	<u><u>\$ 636,468</u></u>
Revenue:		
Property Taxes	\$ 191,703	\$ 183,475
Grants	51,468	41,664
Other	<u>108,065</u>	<u>91,726</u>
Total Revenue	\$ 351,236	316,865
Expenses-Library Services	(349,394)	(330,419)
Loss on Disposal of Fixed Assets	(184)	(1,588)
Prior Period Adjustment	<u>(27,236)</u>	<u>-</u>
Change in Net Assets, After Prior Period Adjustments	<u><u>\$ (25,578)</u></u>	<u><u>\$ (15,142)</u></u>

The Library as a Whole

- The Library's net assets decreased by \$25,578 in 2005 compared to \$15,142 in 2004. The decrease in the current years net assets is primarily due to a prior period adjustment in the carrying value of the Library's book collections to more appropriately reflect the cost of the items.
- The Library's primary source of revenue is from property taxes, which represents 55 percent of total revenues for 2005 compared to 58 percent in 2004.
- Salaries and fringes benefits are a significant expense of the Library, representing 58 percent of total expenses for 2005 compared to 60 percent in 2004.
- Depreciation expense for the current year represented 17 percent of the Library's total expenses for 2005 compared to 19% for 2004.

The Library's Funds

Our analysis of the Library's major fund is included on pages 5 and 6 in the first column of the respective statements. The fund columns provide detailed information about the most significant funds - not the Library as a whole. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities, such as property tax millages. The Library's major funds consist of the General Fund and the Capital Projects Fund.

The fund balance of the General Fund decreased during the year by \$4,203.

The fund balance of the Capital Projects Fund is \$ (52,130) because of the purchase of property using short-term debt.

Salaries and Fringe Benefits was the largest use of resources during the current fiscal year.

Library's Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments occurred in Grant Revenue, and Library Books & Materials.

The increase in the budgeted amounts for Grant Revenue was the result of receiving the remainder of the grant given by Fremont Area Community Foundation. The increase in the budgeted amounts for Library Books & Materials was the result of additional grant revenue being available. Approximately 98 percent of the Grant revenue was spent prior to the year end.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$1,168,407 invested in land, building, furniture and equipment, and books and materials. The Library added \$53,002 in new equipment and collection items. The \$3,694 of new equipment consisted of computers and shelving, and \$49,308 in new collection items consisted of new books, various audio/visual materials, and additions to the music collection.

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Librarian of the White Cloud Community Library, P.O. Box 995, White Cloud MI 49349-0995.

WHITE CLOUD COMMUNITY LIBRARY

Governmental Funds Balance Sheet/Statement of Net Assets June 30, 2005

Assets	General Fund	Capital Projects Fund	Total	Adjustments*	Statement of Activities
Cash	\$ 121,266	\$ 20,279	\$ 141,545	\$ -	\$ 141,545
Accounts Receivable	500	-	500	-	500
Due from Other Governments	3,714	-	3,714	-	3,714
Prepaid Expenses	1,029	-	1,029	-	1,029
Capital Assets, Net of Accumulated Depreciation	-	-	-	586,480	586,480
Total Assets	<u>\$ 126,509</u>	<u>\$ 20,279</u>	<u>\$ 146,788</u>	<u>\$ 586,480</u>	<u>\$ 733,268</u>
Liabilities & Fund Equity					
Liabilities					
Accounts Payable	\$ 4,282	\$ -	\$ 4,282	\$ -	\$ 4,282
Deferred Revenue	1,304	72,409	73,713	1,856	75,569
Note Payable-Deur	-	-	-	39,000	39,000
Accrued Compensated Absences	-	-	-	3,527	3,527
Total Liabilities	<u>5,586</u>	<u>72,409</u>	<u>77,995</u>	<u>44,383</u>	<u>122,378</u>
Fund Balance/Net Assets					
Fund Balances					
Unreserved, reported in:					
General Fund	120,923	-	120,923	(120,923)	-
Capital Projects Fund	-	(52,130)	(52,130)	52,130	-
Total Fund Balances	<u>120,923</u>	<u>(52,130)</u>	<u>68,793</u>	<u>(68,793)</u>	<u>-</u>
Total Liabilities & Fund Balance	<u>\$ 126,509</u>	<u>\$ 20,279</u>	<u>\$ 146,788</u>		
Net Assets:					
Invested in Capital Assets, Net of Related Debt				\$ 547,480	\$ 547,480
Unrestricted				\$ 63,410	\$ 63,410
Total Net Assets				\$ 610,890	\$ 610,890

* Notes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

WHITE CLOUD COMMUNITY LIBRARY

Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities For the Year Ended June 30, 2005

	General <u>Fund</u>	Capital Projects <u>Fund</u>	<u>Total</u>	<u>Adjustments*</u>	Statement of <u>Activities</u>
Revenue					
Local Sources					
Taxes	\$ 191,703	\$ -	\$ 191,703	\$ -	\$ 191,703
Charges for Services	17,695	-	17,695	-	17,695
Grants	42,877	8,591	51,468	-	51,468
Penal Fines	38,481	-	38,481	-	38,481
Interest	533	114	647	-	647
Video, Copy and Fax Fees	8,878	-	8,878	-	8,878
Donations - Memorials	3,235	10,000	13,235	-	13,235
Insurance Reimbursements	6,296	-	6,296	-	6,296
Other	15,397	-	15,397	(184)	15,213
Total Local Sources	325,095	18,705	343,800	(184)	343,616
State Sources - State Aid	7,436	-	7,436	-	7,436
Total Revenue	332,531	18,705	351,236	(184)	351,052
Expenditures					
Salaries and Wages	158,541	-	158,541	-	158,541
Payroll Taxes	12,640	-	12,640	-	12,640
Fringe Benefits	47,494	-	47,494	(1,928)	45,566
Library Books and Materials	49,309	-	49,309	(49,309)	-
Utilities and Telephone	9,565	-	9,565	-	9,565
Repairs and Maintenance	4,643	-	4,643	-	4,643
Insurance	4,178	-	4,178	-	4,178
Capital Outlay	5,103	106,354	111,457	(110,048)	1,409
Professional and Contracted Services	30,089	-	30,089	-	30,089
Miscellaneous	21,793	-	21,793	-	21,793
Depreciation	-	-	-	60,848	60,848
Debt Service:	2,192	1,000	3,192	(3,192)	-
Interest	122	-	122	-	122
Total Expenditures	345,669	107,354	453,023	(103,629)	349,394
Excess Revenue Over (Under)Expenditures	(13,138)	(88,649)	(101,787)	103,445	1,658
Other Financing Resources (Uses)					
Transfers-In	63,011	59,530	122,541	(122,541)	-
Transfers-Out	(59,530)	(63,011)	(122,541)		
Proceeds from Debt	-	40,000	40,000	(40,000)	-
Change in Fund Balance/Net Assets	(9,657)	(52,130)	(61,787)	63,445	1,658
Prior Period Adjustment	5,454	-	5,454	(5,454)	-
Prior Period Adjustment	-	-	-	(27,236)	(27,236)
Change in Fund Balance/Net Assets, After prior Period Adjustment	(4,203)	(52,130)	(56,333)	30,755	(25,578)
Fund Balance/Net Assets- July 1	125,126	-	125,126	511,342	636,468
Fund Balance/Net Assets- June 30	\$ 120,923	\$ (52,130)	\$ 68,793	\$ 542,097	\$ 610,890

* Notes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

WHITE CLOUD COMMUNITY LIBRARY

Notes to the Financial Statements
June 30, 2005

NOTE A NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of White Cloud Community Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

1. REPORTING ENTITY

White Cloud Public Library was organized in 1955 to provide services for the White Cloud Area. In 1998, the Library was re-established as a District Library when the City of White Cloud, Everett township, Merrill Township, and White Cloud Public Schools filed resolutions under Public Act 24. The Library's Board consists of eight board members appointed by the City of White Cloud, Everett Township, Merrill Township, and White Cloud Public Schools. The White Cloud Community Library is a separate reporting entity.

The financial statements include all activities of the Library. There are no governmental departments, agencies, institutions, commissions, public authorities or organizations within the Library, which its appointed officials may exercise oversight responsibility, that have been excluded. Oversight responsibility is considered to be derived from the Library's power and includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Also, using the same criteria above, the Library's financial statements include the accounts of all Library operations.

2. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major and non-major funds).

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The effect of interfund activity has been eliminated from the government-wide financial statements. Also, there are no fiduciary funds included in the government-wide statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current

period. For this purpose, the Library considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when the payment is due.

Property taxes, State Shared Revenue, Penal Fines and interest are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Deferred revenues arise when resources are received by the Library before it has met all of the eligibility requirements imposed by the grantor or provider.

The Library reports the following major governmental funds:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from intergovernmental revenues.

Capital Projects Fund - This fund is used to account for all financial resources to be used for the acquisition or construction of major capital facilities.

3. CAPITAL ASSETS

Capital assets are defined by the Library as assets with an initial cost of more than \$500. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life on an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and Improvements	10-50 Years
Furniture and Equipment	5-20 Years
Library Books and Materials	3-10 Years

4. PROPERTY TAXES

Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year. The Townships and City bill and collect the property taxes.

5. CASH AND CASH EQUIVALENTS

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments, if any, with original maturities of three months or less from date of acquisition.

6. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

7. PREPAID EXPENSES

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items.

8. COMPENSATED (VACATION AND SICK LEAVE)

It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Library employees are granted vacation and sick leave in varying amounts based on length of service. Upon termination, employees are paid accumulated vacation at full rates and accumulated sick leave at one half their rate of pay. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund.

9. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

10. FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

11. DEFICIT EQUITY

The Library has an accumulated retained earnings deficit in the Capital Projects Fund of \$52,130. Public Act 275 of 1980 requires that the White Cloud Community Library file a deficit elimination plan within 90 days after the end of the fiscal year for each fund that ended that year in a deficit condition.

NOTE B DEPOSITS

Legal or Contractual Provisions for Deposits and Investments. The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended through December 31, 1997, states the Library by resolution, may authorize the Treasurer to invest surplus funds in one or more of the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 81a-1 to 801-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - i. The purchase of securities on a when-issued or delayed delivery basis.
 - ii. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
 - iii. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperations Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

Notes to the Financial Statements (Continued)

The Library funds are held at Independent Bank - West Michigan and are carried at cost and consisted of the following:

	<u>Carrying Value</u>	<u>Market Value</u>
NOW - Checking	\$ 55,100	\$ 59,521
NOW - Checking - Payroll	3,155	4,065
Business Checking Plus-Building	20,279	21,279
Totally Free Checking-Building	<u>63,011</u>	<u>63,011</u>
Total Deposit	<u>\$ 141,545</u>	<u>\$ 147,876</u>
FDIC Insured	\$ 141,545	\$ 147,876
Uninsured	-	-

NOTE C DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grants	<u>\$ -</u>	<u>\$ 73,712</u>

NOTE D CAPITAL ASSETS

A summary of capital asset activity for the fiscal year ended June 30, 2005 follows:

	<u>Balance</u>	<u>Additions</u>	<u>Retire/</u>	<u>Balance</u>
	<u>7/1/2004</u>		<u>Reclass</u>	<u>6/30/2005</u>
Capital Assets not being depreciated:				
Land	\$ 21,675	\$ 40,000	\$ -	\$ 61,675
Other Capital Assets:				
Library Collection	456,420	49,308	1,848	503,880
Buildings & Improvements	382,000	-	-	382,000
Construction- in- progress	-	66,354	-	66,354
Equipment & Furniture	<u>150,804</u>	<u>3,694</u>	<u>-</u>	<u>154,498</u>
Total at Historical Cost	1,010,899	159,356	1,848	1,168,407
Less Accumulated Depreciation:				
Library Collection	373,966	40,143	1,663	412,444
Buildings & Improvements	32,512	6,520	-	39,033
Equipment & Furniture	<u>116,264</u>	<u>14,185</u>	<u>-</u>	<u>130,450</u>
Total Accumulated Depreciation	<u>522,742</u>	<u>60,848</u>	<u>1,663</u>	<u>581,927</u>
Net Book Value	<u>\$ 488,157</u>	<u>\$ 98,508</u>	<u>\$ 185</u>	<u>\$ 586,480</u>

Depreciation expense for 2005 was \$60,848.

NOTE E CHANGES IN LONG-TERM DEBT

Outstanding Debt

A summary of the Library's long-term debt outstanding at June 30, 2005 is as follows:

	<u>Balance</u>	<u>(Net)</u>	<u>Balance</u>	<u>Amounts</u>
	<u>July 1, 2004</u>	<u>Borrowings</u>	<u>June 30, 2005</u>	<u>Due within</u>
		<u>(Payments)</u>		<u>One Year</u>
Capital Lease Payable - Due in monthly instalments of \$386 through December 2004; interest at 18.83%.	<u>\$ 2,192</u>	<u>\$ (2,192)</u>	<u>\$ -</u>	<u>\$ -</u>

Interest expense of the Library for the year ended June 30, 2005 was \$122.

NOTE F CHANGES IN SHORT-TERM DEBT

During 2005, the Library entered into a short-term note payable for the purpose of purchasing property in which to build a new library. The note required a \$1,000 down payment and is due within six months. A contingency clause was included that requires monthly payments of \$200 including interest if the bond issue is not passed.

	<u>2005</u>
Short-term debt outstanding July 1, 2004	\$ -
Debt added during the year	40,000
Debt retired during the year	<u>1,000</u>
Short-term debt outstanding June 30, 2005	<u>\$ 39,000</u>

NOTE G INTERFUND TRANSFERS

	<u>Transfers In</u>		
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Transfers Out:			
General Fund	\$ -	\$ (3,481)	\$ (3,481)
Capital Projects Fund	<u>3,481</u>	<u>-</u>	<u>3,481</u>
Total	<u>\$ 3,481</u>	<u>\$ (3,481)</u>	<u>\$ -</u>

NOTE H ENDOWMENT FUND

The Fremont Area Community Foundation holds two endowment funds which have been earmarked for White Cloud Community Library. The Values of the endowment funds are as follows:

	<u>December 31, 2004</u>	<u>December 31, 2005</u>
White Cloud Community Library Fund	\$ 33,534	\$ 36,187
Ronald Goldston Fund	<u>7,733</u>	<u>8,719</u>
	<u>\$ 41,267</u>	<u>\$ 44,906</u>

NOTE I RETIREMENT PLAN

Description of Plan and Plan Assets - The Library is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for notes to the the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by the Library's personnel policy, which does not require employees to contribute to the plan. The Library is required to contribute at an actuarially determined rate: the rate was 16.61 percent as of July 1, 2004.

Annual Pension Cost - During the fiscal year ended June 30, 2005, the Library's contributions totaling \$ 17,761 were made in accordance with contribution requirements. The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

GASB 25 and GASB 27 Information - The following information has been prepared to provide the information necessary to comply with GASB Statements Number 25 and 27.

All entries and the annual employer contribution amount were based on the actuarial methods and assumptions used in the December 31, 2004 actuarial valuations. The entry age normal actuarial method was used to determine the entries at disclosure.

<u>GASB 25 Information</u>	As of <u>12/31/034</u>
Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$ -
Terminated employees not yet receiving benefits	14,339
Current employees -	
Accumulated employee contributions	
Including allocated investment income	30,526
Employer financed	<u>165,439</u>
Total Actuarial Accrued Liability (b)	210,304
Net Assets Available for Benefits at Actuarial Value (Market Value is \$157,762) (a)	<u>161,622</u>
Unfunded (Overfunded) Actuarial Accrued Liability	<u>\$ 48,682</u>

GASB 27 Information

Fiscal Year Beginning	July 1, 2006
Annual Required Contribution (ARC)	\$ 11,556
Amortization Factor Used	.053632

<u>Trend Information</u>			
<u>Fiscal Period Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2002	\$ 13,655	100%	-0-
June 30, 2003	11,145	100%	-0-
June 30, 2004	13,145	100%	-0-
June 30, 2005	17,761	100%	-0-

Schedule of Funding Progress						
Actuarial Valuation 12/31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over)AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As a % of Covered Payroll (b-a)/c)
2002	\$ 81,764	\$ 150,678	\$ 68,914	54.3%	\$ 76,312	90.30%
2003	137,743	206,593	68,850	66.7%	74,109	92.99%
2004	161,622	210,304	48,682	76.9%	85,272	57.09%

NOTE J DEFERRED COMPENSATION PLAN

The Library offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Library employees, permits deferral of a portion of earnings until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Library (without being restricted to the provisions of benefits under the plan), subject only to the claims of the Library's general creditors. Participants' rights under the plan are equal to those of general creditors of the Library in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the Library that the Library has no liability for losses under the plan but does have the duty of due care that would be required for an ordinary prudent investor.

NOTE K RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Library maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Library. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE L STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The General Fund is under formal budgetary control. The budget shown in the financial statements for this fund was prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consists only of those amounts contained in the formal budget approved and amended by the Board.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2005, the Library did incur material overexpenditures in the following funds:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Library Books & Materials	\$ 26,700	\$ 49,309	\$ (22,609)
Programs	750	3,567	(2,817)

In the body of the financial statements, the Library's actual expenditures and budgeted expenditures for the budgetary fund has been shown on a functional basis. The approved budgets for this budgetary fund was adopted at the line item level.

NOTE M PRIOR PERIOD ADJUSTMENT

During the audit of 2005, two prior period adjustments were made to the beginning fund balance. First, it was noticed that compensated absences was accrued for both the modified and full accrual basis of accounting. This accrual should only be made for full accrual basis and included in the statement of activities. Second, an adjustment to the carrying value of the Library's book collection was made to more appropriately reflect the cost of the items. The correction of these errors are reflected in the statement of activities. There was no income effect as a result of these changes.

NOTE N RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's governmental fund differs from net assets and statement of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified Accrual Basis	\$ 68,793
Amounts reported in the statement of net assets are different because:	
Capital Assets are not financial resources, and are not reported in the funds	586,480
Notes payable are not due and payable in the current period and are not reported in the funds.	(39,000)
Compensated Absences are included as a liability	(3,527)
Revenues that are not considered available for current expenditures are not reported on the statement of activities	(1,856)
Net Assets of General Fund - Full Accrual Basis	<u>\$ 610,890</u>
Net change in Fund Balances - Modified Accrual Basis	\$ (61,786)
Amounts reported in the statement of activities are different because:	
Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Library books and materials	49,309
Capital outlay	110,048
Depreciation	(60,848)
Proceeds from debt reported as revenue in the fund statements, not in the financial statements	(40,000)
Capital Lease principal payments are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)	2,192
Note Payable principal payments are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt.)	1,000
Decrease in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	1,928

Notes to the Financial Statements (Continued)

Governmental Funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal Of fixed assets. There were no proceeds.

(185)

Change in Net assets of General Fund - Full Accrual Basis

\$ 1,658

WHITE CLOUD COMMUNITY LIBRARY

Required Supplementary Information Budgetary Comparison Schedule – General Fund For the Year Ended June 30, 2005

	Originally Adopted <u>Budget</u>	Final Amended <u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)
Revenues				
Local Sources				
Taxes	\$ 183,500	\$ 193,000	\$ 191,703	\$ (1,297)
Charges for Services	16,000	18,500	17,695	(805)
Grants	26,000	49,336	42,877	(6,459)
Penal Fines	41,400	38,309	38,481	172
Interest	750	750	533	(217)
Video, Copy and Fax Fees	9,000	9,600	8,878	(722)
Donations - Memorials	6,000	5,000	3,235	(1,765)
Insurance Reimbursements	-	-	6,296	6,296
Other	<u>17,400</u>	<u>16,100</u>	<u>15,397</u>	<u>(703)</u>
Total Local Sources	300,050	330,595	325,095	(5,500)
State Sources - State Aid	<u>6,607</u>	<u>6,607</u>	<u>7,436</u>	<u>829</u>
Total Revenues	306,657	337,202	332,531	4,671
Expenditures				
Salaries and Wages	158,448	161,622	158,541	3,081
Payroll Taxes	12,125	12,750	12,640	110
Fringe Benefits	42,100	49,165	47,494	1,671
Library Books and Materials	21,200	26,700	49,309	(22,609)
Utilities and Telephone	9,075	9,950	9,565	385
Repairs and Maintenance	10,500	11,000	4,643	6,357
Capital Outlay	5,000	5,000	5,103	(103)
Insurance - General	3,000	3,291	3,291	-
- Workmans Compensation	475	550	887	(337)
Programs	900	750	3,567	(2,817)
Office Supplies	8,000	8,300	9,934	(1,634)
Postage		1,400	1,500	1,392108
Operating Supplies	700	1,200	1,050	150
Co-op Services	15,500	16,200	16,351	(151)
Professional and Contracted Services	14,500	17,000	13,738	3,262
Miscellaneous	3,675	6,300	5,850	450
Debt Service				
Principal	-	-	2,192	(2,192)
Interest	<u>-</u>	<u>-</u>	<u>122</u>	<u>(122)</u>
Total Expenditures	<u>\$ 306,598</u>	<u>\$ 331,278</u>	<u>\$ 345,669</u>	<u>\$ (14,391)</u>
Excess Revenues Over (Under) Expenditures			(13,138)	
Transfers-Internal Activity			<u>3,481</u>	
Change in Fund Balance			(9,657)	
Prior Period Adjustment			5,454	
Fund Balance - July 1			<u>125,126</u>	
Fund Balance - June 30			<u>\$ 120,923</u>	

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CERTIFIED PUBLIC ACCOUNTANTS
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September 15, 2005

Library Board
White Cloud Community Library
White Cloud MI 49349

Dear Board Members:

We have recently completed an audit of the financial statements of the White Cloud Community Library for the year ended June 30, 2005. In connection with our audit, we reviewed the Board's accounting procedures. In that regard we offer the following comments and recommendations.

PRIOR YEAR RECOMMENDATIONS BUDGETING

We are very happy to report that the recommendation made to budget the grant expenditures by their nature instead of by their grant source was implemented. We commend the Board and Staff for taking such an active role to provide improved controls over the accounting and financial reporting system.

CURRENT YEAR RECOMMENDATIONS BUDGETING

During the audit, we noticed that the Library is not properly amending the budget for expenditures which were not expected at the time of adopting the original budget. The budget must reflect expenditures prior to the expenditure occurring. The amendments that were made did not eliminate all unfavorable variances.

We also noted that a budget was not prepared for the Capital Projects Fund. Beginning with the July 1, 2005 through June 30, 2006 fiscal year, the District must prepare a separate budget for the Capital Projects Fund. The same budgeting requirements as the General Fund should also be applied to the budget for this new fund.

CAPITALIZATION POLICY

In relation to your fixed asset inventory, we recommend that your Library adopt a capitalization policy. Your capitalization policy should identify the minimum dollar value of fixed assets which should be accounted for and inventoried for financial statement reporting purposes. For example, as a unit you could identify

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Fremont, MI 49412
Phone (231) 924-6890
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Toll Free (800) 924-6891

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950 W. Norton Ave.
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Muskegon, MI 49441
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Hart
2332 North Comfort Drive
Hart, MI 49420
Phone (231) 873-5611
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White Cloud Community Library
September 15, 2005
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amounts below \$1,000 are not going to be considered for the fixed asset inventory. Exceptions to your capitalization policy can be made for items such as book collections. We believe this would help to make the inventory tracking a little less complicated.

This report is intended solely for the information and use of the White Cloud Community Library's management and the board members. This restriction is not intended to limit distribution of this report, which is a matter of public record.

We appreciate the courtesy extended to us during our audit. We are available year round to assist in the implementation of any of the recommendations set forth in this letter or to answer any question regarding the audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Jodi DeKuiper, CPA". The signature is written in a cursive, flowing style.

Jodi DeKuiper, C.P.A.
Hendon & Slate, P.C.